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**Economic Conditions
Governmental Finance
United States Securities**

NEW YORK, AUGUST, 1920.

General Business Conditions.

THE general business situation has undergone little change in the last month. Retail trade has been good for the season and confidence in the future is strengthened by the fine progress of the crops. Nearly everybody seems to understand that an abundant production on the farms is good for the country, although the doctrine of greater production everywhere is not so well appreciated. The settlement of the railroad wage controversy and improved prospects for peace in Europe were also factors on the constructive side.

Outside of the lines of production in which disturbance began several months ago, notably wearing apparel, the industries are more embarrassed by transportation troubles than by lack of demand for their products. The iron and steel people and other manufacturers of material entering into construction see plenty of business ahead, although house-building has suffered a check. Construction for business purposes holds up, but investors are hesitating to put money into dwellings or apartments at present costs and with the existing anti-landlord agitation. The scarcity of capital of course is an important factor, and with conditions as they are it goes more readily into investments for the service of business than into buildings for family use. In general it may be said that there is little evidence that the buying power of the public has been impaired, although there has been an accumulation of goods in some lines and prices are unsettled. The agricultural districts are looking for a continuance of good trade.

The Price Situation.

The textile trades are still very much disturbed, with the jobbing trade almost at a standstill, and a general suspension of production in woolen goods. Buying for the fall trade is very light and nothing is doing upon goods for spring delivery, the main trouble, apparently, being that nobody knows what the prices ought to be. There is a prevalent feeling among distributors that the peak has been turned and that goods will be lower; a large share of the orders placed in the spring for fall delivery have been cancelled, and although the merchants expect to need the goods

for their trade they are afraid to take them on the old price level. They are largely over the fear that there will not be goods enough to go around.

On the other hand the manufacturers say that they see no prospect of an early reduction in the cost of goods. Wage rates in the mills were advanced 15 per cent on June 1st and they do not think it practicable to obtain a reduction at present. Other factors, such as coal and freight rates, are either higher or soon will be. Cotton, although down a little from the top figures of May, is still commanding over 30 cents for the fall deliveries. Wool is not moving to an extent which enables any calculations to be made upon it, and at any rate the wool for fall business, on the cancelled orders, is on hand at the old prices and the manufacturers decline to make it up or increase their investment in it until they know what they are going to do with it. In short, a deadlock exists while all sides wait for developments.

The National Wholesale Dry Goods Association held a meeting in New York last month with a large attendance, and resolved in favor of giving orders at once to the extent of 25 per cent of the goods required to cover fall business, but after making this associated declaration they went home without having individually executed the orders, which illustrates the general attitude.

Manufacturers are willing to make concessions at the expense of profits, but buyers do not know what it is safe to offer. Some small business has been done in print cloths for November delivery, lots of 60x80—38½-inch 5.35s selling at 16½. The top price on these goods was 26 cents, but to show how far things had gone it may be said that in the slump which followed the Armistice they sold down to 9 cents and under. So there is some reason for uncertainty as to where the bottom is.

Idle Machinery.

It is unfortunate that any productive machinery should stand idle at this time, but it is an unavoidable incident of the period of readjustment. The manufacturers are as timid about making up goods with a falling market in prospect as the farmers were about sowing a large

Those desiring this Letter sent them regularly will receive it without charge upon application

acreage of wheat with a withdrawal of the government guaranty in prospect. It is very costly to have the great investment in a textile mill stand idle and the labor force disintegrate, and it is safe to say that the proprietors are as anxious for continuous operations as anybody can be.

The situation is much the same in the English textile centers, although the stagnation is not quite so extreme, and the opinion is expressed that the world is still bare of goods and that buying must be resumed. The situation would change rapidly if the central countries of Europe were able to buy raw materials. The London *Economist* says:

Travelers recently returned from the Continent state that Germany is in dire need of textiles, two Bradford merchants and topmakers who have been in the country being unable to purchase any wool under-clothing at any price during the past fortnight. It is today being recognized more than ever that the sooner Germany can be brought back into commerce the better it will be for the entire trade.

Shoes and Leather.

During the first four months of this year the shoe industry was very active, but in May and June confidence in prices was disturbed, orders fell off and a good many orders previously given were cancelled. Some of the factories met the situation by agreeing that if any price reductions were made for the season they should apply to the pending orders. This had a tendency to stabilize matters but new business is very light.

The leather market is very quiet, with tanneries working at less than half their capacity. Sole leather and belting leather have been fairly well maintained in price, but upper leather in the form of cow hides, calf hides, sheep skins, etc., is very much reduced.

Mr. J. F. McElwain, head of one of the largest shoe manufacturing companies, has given out a statement in which he sums up the situation as follows:

There has been a decline in upper leather and a moderate decline in sole leather. Other items have shown a radical advance during the past two or three months. Shoes figured for Fall and Spring will have to bear an increased cost of 15 to 25 cents a pair in fundamental fixed charges. This increased cost is made up of transportation charges, interest, lasts, dies and patterns, fuel, machine parts and repairs, cases and cartons, operating expense, increase in labor and organization,—if not an actual increase in piece rates and day rates, an increase due to lowered production. All of these items will be taken into consideration in figuring prices for the future. Although the public can expect some reduction in the price of shoes for Fall, this, I fear, will be moderate as compared with expectations.

The Crops.

The crops gained in condition in the critical month of July, and the prospects are for one of the best yields of foodstuffs ever produced. Winter wheat has been harvested and, thanks to a remarkable recovery of the crop in Kansas and the southwest, the outturn will be much above estimates. Reports from Kansas tell of phenomenal results, the quality being uniformly fine, and yield much above expectations. The Kansas State Agricultural Department estimates that 10,526,000

acres were planted to winter wheat in the State, of which 15 per cent was abandoned, leaving 8,943,000 acres to be harvested. The average estimate of 2,000 correspondents upon yield is 16.46 bushels per acre, or slightly over 147,000,000 bushels for the total. A good many well-informed parties think the total will be higher. The United States government estimate was 110,000,000 bushels.

The results in Oklahoma are similar. Threshing is well under way in that state, and wheat is threshing out three to five bushels per acre better than expected. There also the quality is the best.

Small Grain Prospects Above the Average.

The spring wheat crop has been reported as suffering in spots from black rust, but it is not thought that the yield will be seriously affected. Cutting is in progress. The Federal Reserve Bank of Minneapolis reports the prospects for all small grain above the average for ten years.

The wheat crop in the aggregate will probably exceed 850,000,000 bushels.

The improved prospects upon wheat have taken about 30 cents per bushel off the price since the opening of free trading on the exchanges. While the shortage of cars is an annoyance to farmers who want to sell immediately, it is likely that the delay in marketing which is thus enforced will help to sustain the price. Wheat has not yet begun to accumulate in primary markets.

The other small grain crops are good. The flax seed yield for Minnesota, the Dakotas and Montana is estimated at 15,000,000 to 20,000,000 bushels, against 6,000,000 bushels last year. The spectacle of shipments of Argentine flax seed to Duluth and Minneapolis to supply the crushing mills of those cities will not be seen in the coming year. The seed is quoted at Duluth at \$3.30 to \$3.40 per bushel, against \$5.88 to \$6 a year ago. Linseed oil is quoted at \$1.50 per gallon against \$2.17 a year ago.

The corn crop is in fine shape in all the leading corn states, with plenty of moisture to make the ears and nothing to fear but a premature frost.

The crop of potatoes promises to be larger than last year in the chief potato-growing sections. The short crop last year was a serious factor in living costs, as the price has been phenomenally high even up to the last of July. All the vegetable crops are reported by the Bureau of Markets, Washington, as now selling at wholesale cheaper than last year.

The cotton crop has made remarkable gains in the last two months, and latest estimates are for a crop around or approaching 13,000,000 bales, which would be the largest yield since the record crop of 1914.

The wool situation is practically unchanged, trading being almost wholly suspended. A well-informed correspondent at Denver states that at this time last year 80 per cent of the Wyoming clip had been contracted for at 50 to 60 cents per

pound, but this year there are almost no buyers in the field and practically no sales have been made. Some consignments have been made with advances of 15 to 25 cents per pound.

The price of sugar is on the down grade, and the prospect is that the next world-crop will be larger and the price lower. It is now calculated that the 1920-21 crop in Europe will aggregate 3,795,000 tons against 2,634,000 tons for the 1919-20 crop. The estimate for Germany is 1,300,000 tons against 750,000 in the last crop. The acreage planted in every sugar-producing country has been increased, which is very practical evidence as to how high prices eventually work their own cure. In the last two months sugar has come to this country not only from all the countries bordering on the Caribbean, but Argentina, the Philippine Islands, Japan, Java, Belgium and Czechoslovakia. The price brought it and the influx broke the market after all the well-meant activities of the government had failed to do so.

The Downward Tendency of Prices.

The general situation is favorable to lower prices. A good crop of foodstuffs has been raised, and as it is likely that Europe will require less than during the past year, it is probable that the prices of these will be somewhat lower than they have been, although a return to normal conditions is out of the question until Russia resumes exportations on the old scale.

The growth of importations from \$3,095,720,068 in the fiscal year ended June 30, 1919, to \$5,238,746,580 in the year ended June 30, 1920, and from \$343,746,170 in July, 1919, to \$553,000,000 in June, 1920, is significant of the recovery of productive power outside of the United States and of the influence of high exchange rates on the United States in directing goods to this market. The influence of these importations will be for lower prices.

One of the chief factors in high prices is conceded to be the inadequacy of transportation facilities. Grain would be lower in the central markets, coal would be cheaper and manufacturing costs generally would be lower if the congestion on the railroads was cleared up. But this is only a temporary difficulty, and will be gradually overcome.

A general recovery from the effects of the war is going on. The replacement of shipping is well on the way to accomplishment; ocean freight charges are declining and shipbuilding operations are diminishing, releasing workmen to other employments and reducing the demand on the steel mills. It will take years to bring up the railroads and other public utilities and do the house-building needed, but gradually the stress will be lessened, as equipment is increased, importations increase and our exportations decline. The great business which is in sight for the steel works and the electrical companies is in enlarging the productive capacity of the industries.

Gradual Readjustment.

In short, conditions seem to favor a gradual readjustment of prices toward a lower basis. This is what everybody should desire, because it means keeping the industries in balance, with continuous employment for wage-earners, a continuous turn-over in trade, a gradual reduction of inventories and indebtedness and a safe re-establishment upon the foundation of normal solid values.

The wise policy for the time is one of ready adaptation and co-operation all around. Changes are impending and it is no time for any group to take an arbitrary position and say that it will have things its own way. The problem is to lower the whole level upon which the exchanges of industry are being made without disrupting the organization and interrupting production. If, as seems probable, the farmers must accept a gradual reduction in the prices of their products, as Europe becomes more self-sufficient, some impairment of their purchasing power will result, and they will buy less of the products of other industries unless these are correspondingly cheaper. It will be useless for the producers in other industries to insist that they shall have the same money income if the great agricultural population has less. There is a natural equilibrium and reciprocity among the industries which is bound to be maintained because it is fixed in the very constitution of things. If the readjustments are not made reasonably and harmoniously they will be made any way by the force of economic law.

Conditions in the North of Europe.

Reports from abroad indicate a slackening of the demand for goods and a tendency to deflation. The labor situation is giving much perplexity, owing to low production and high costs. In Denmark, where a shipping strike was broken by volunteers from the farmers, merchants and all lines of business the industrial situation is now quiet and it is thought there will be no more trouble for some time. All of the big strikes in Denmark have been lost.

Money is very tight in the three Scandinavian countries. The Norges Bank (Central Bank of Norway) raised its discount rate to 7 per cent on June 25, the central banks of Sweden and Denmark having raised their rates to that figure some time earlier. The central bank of Finland has its rate at 8 per cent.

All of the Scandinavian countries are looking for trade with Russia, and the Soviet government has made advance deposits of gold in all three countries.

Money and Banking.

The credit situation has not shown the improvement that was hoped to be accomplished in June and July, by way of preparation for the fall demands, although the loans of the Federal

Reserve banks have been reduced about \$100,000,000 in July.

The total loans of the twelve Federal Reserve banks, as shown by the statement nearest to the first of each month in the past year have been as follows:

July 3, 1919.....	\$2,225,707,000
August 1, 1919.....	2,222,730,000
September 5, 1919.....	2,202,085,000
October 3, 1919.....	2,342,604,000
November 7, 1919.....	2,623,075,000
December 5, 1919.....	2,622,327,000
January 2, 1920.....	2,805,818,000
February 6, 1920.....	2,758,289,000
March 5, 1920.....	2,922,542,000
April 2, 1920.....	2,824,554,000
May 7, 1920.....	2,914,456,000
June 4, 1920.....	2,974,946,000
July 2, 1920.....	2,935,279,000
July 23, 1920.....	2,823,450,000

The result of the efforts of the Federal Reserve authorities and cooperating bankers to accomplish some degree of deflation is disappointing, but it must not be thought that nothing has been accomplished. The first task was to stop the inflation which had been steadily going on for the past year, and in view of all conditions perhaps that is as much as could be hoped for. The insufficiency of railroad service has been an almost insuperable obstacle to enforced liquidation. It would be worse than folly for bankers to press customers who are in possession of abundant assets and are anxious to turn them but unable to do so because of transportation difficulties. The situation is one to be dealt with intelligently, patiently and constructively.

It must be remembered in connection with all talk about seasonal fluctuations that when business is running at the limit of activity all the time seasonal fluctuations largely disappear. Trade and industry have been active almost without variations during the past year. The movement of last year's crops was not accomplished last year, but has been going on ever since they were harvested and is not completed yet.

National Bank Loans in Five Years.

Moreover, the idea that there is an enormously greater demand for credit in the fall than in other seasons is a good deal of a myth, or at least misstatement. In the five years from 1910 to 1914 the loans of all national banks as shown by the June and fall statements were as follows:

	June 30	Sept. 1	Nov. 10
1910.....	\$5,430,159,186	\$5,467,160,637	\$5,450,644,385
	June 7	Sept. 1	Dec. 5
1911.....	\$5,610,838,787	\$5,663,411,073	\$5,659,109,826
	June 14	Sept. 4	Nov. 26
1912.....	\$5,953,904,431	\$6,040,841,270	\$6,058,982,029
	June 4	Aug. 9	Oct. 21
1913.....	\$6,143,028,132	\$6,168,558,525	\$6,200,877,853
	June 30	Sept. 12	Oct. 31
1914.....	\$6,430,069,214	\$6,400,767,386	\$6,316,478,470

The largest increase shown in these years was less than two per cent. The truth is that the principal reason for the disturbance which formerly occurred in the fall months was the necessity of providing an increased amount of currency for circulation. Before the establish-

ment of the Federal Reserve system with its elastic currency issues this involved a distribution of reserve money and caused much inconvenience, but now the effect of deposit withdrawals is minimized by the use of reserve bank currency.

Incidentally this may be referred to as a sufficient reason why no attention should be paid to criticisms which emphasize the amount of reserve notes in circulation. On no account should there be any arbitrary interference with the natural fluctuations in the volume of reserve currency. This currency is interchangeable with reserve deposits and it is highly important that it shall be so, without let or hindrance. The remedy for inflation is by curtailing the credits which make the deposits rise, not by refusing to convert deposits into currency. It is immaterial whether outstanding credit is in the form of bank deposits or bank currency, and the public should be allowed to use checks or currency as suits its convenience.

Inflation and the Rise of Prices.

The great increase of loans which took place last fall was not due to the seasonal demand, but to the rise of prices, which in turn was due to the demand for commodities and labor in excess of the supply. The banks were financing a competitive struggle over a limited supply of labor, material and goods. The policy of restricting credit should have been emphasized earlier, but, as is well known, banking authorities abstained from vigorous steps throughout most of last year out of consideration for the people who had borrowed to buy Liberty bonds and notes and were still in the banks.

It is well to refresh the memory frequently as to the expansion of bank credit since 1914. The loans and discounts of all national banks on June 30, 1914, aggregated \$6,430,069,000, and on November 1, 1918, ten days before the Armistice, they were \$10,096,940,000. Since the latter date the figures for each statement are given below:

December 31, 1918.....	\$9,918,294,000
March 4, 1919.....	9,916,187,000
May 12, 1919.....	9,904,821,000
June 30, 1919.....	10,574,838,000
September 12, 1919.....	11,085,462,000
November 17, 1919.....	11,560,242,000
December 31, 1919.....	11,786,227,000
February 28, 1920.....	11,994,523,000
May 4, 1920.....	12,238,582,000

Rediscounts of national banks with Federal Reserve banks are not included in the above. These amounted on May 4, 1920, to \$952,000,000; on June 30, 1914, the Reserve banks had not begun business. The total increase of loans of national banks from June 30, 1914, to May 4, 1920, was \$6,810,513,000, or about 100 per cent. The increase from June 30, 1919, to May 4, 1920, was \$1,713,000,000, not including re-discounts. The aggregate loans of state banks and trust companies are somewhat greater than those of the national banks, and have probably increased in

about the same proportion, but the figures are not available. The total increase of bank loans in the past year is probably between \$4,000,000,000 and \$4,500,000,000.

Of course prices and wages have gone up! That amount of new purchasing power could not be turned into the markets without driving them up. And see the futility of it! This new credit has been granted upon the theory that it was necessary to aid production, but production is but slightly larger, so far as records are available, than a year ago. Higher wages have been granted to compensate for higher prices, but prices have been forced still higher in consequence.

The movement of loans and of the general wage and price level since 1914 has been closely together, and it will go on together unless a resolute effort is made to hold it in check. Nothing is to be gained for anybody by continued traveling in this cycle.

Attitude of the Public Changing.

The most hopeful feature of the situation is the fact that the public seems to be finally impressed that expansion must stop and that business must be handled within existing lines of credit. Expansion has been so much the order of the day, and higher wages and prices so readily obtained, that it has been difficult to change the attitude of mind, but common sense tells sensible people that such a riot of inflation cannot go on indefinitely, and that every interest will be served by halting the movement. It will be stopped when production catches up with demand or demand is held down within the normal capacity of the industries. It is the attempt to buy more goods than there are, build more houses than there is material for, hire more men than there are and do more business than the railroads can handle, that forces up prices and calls for more credit. The country cannot make up for all the lost construction of the war-time at once, and is the less able to do so because it is working shorter hours and spending more for current consumption than formerly.

The harvest is well over, except in the northern section, but owing to the car shortage there is but slight movement for grain as yet and but little demand for credit on that account. The country banks have financed the farmers with some help from the centers, and while a more rapid movement of the crop would make new demands on the centers it would liquidate the country banks and enable them to pay their indebtedness. The tight condition everywhere, however, is tending to restrict building operations, land sales, new investments and other outlays not absolutely necessary and of the kinds which absorbed a large amount of credit last year. This is the influence which must be counted on to slowly clear up the situation.

A noteworthy feature of last year has been the depletion of country bank balances in the centers

and the increase of their loans. It is an unusual circumstance for bank loans to go up and bank deposits to go down at the same time, as they have done since the beginning of 1920.

The Credit Situation.

Notwithstanding the stringency of credit and the heavy price declines that have occurred in some lines, the situation has been very free from insolvencies. A few important houses have been obliged to ask for extensions and in several instances committees have been appointed, but in all of these instances creditors have been satisfied that the parties were solvent and would be able to continue business. In some lines where there has been a very rapid expansion of production, as in silk manufacture, a good many small, new concerns who started with little capital, have been obliged to cease operations, but their liabilities have not been large enough to occasion any disturbance. The general opinion among well-informed people is that the business structure of the country is far stronger than at any time of crisis in the past, and that a disturbing number of insolvencies is not likely to occur.

The Railroad Wage Award and Charges.

The most important event of the past month has been the railroad wage award, which raises the pay of all employes, and is calculated to adjust any unfair relations heretofore existing between the several classes, and in view of the cost of living to give the highest percentage of advance to the lower-paid labor. The average increase is something over 20 per cent. and is estimated to aggregate about \$600,000,000 for a year, bringing the total railroad pay roll for one year to about \$3,600,000,000. The editor of the *Railway Age*, calculates that with this action wages have been increased about 115 per cent. since the beginning of the war.

This last award is the action of an official board and represents a most painstaking effort on the part of public authorities to ascertain what is right and fair in the premises and to settle the controversy on a just basis. Taking the interests of the whole population into account there can be no doubt that the award is generous to the employes. Wage-earners in some of the leading industries have had their pay increased by more than 115 per cent. in the last five years, but in more cases, probably, the increase has been less than that rate.

The claim for an increase was based upon the rise in the cost of living and granted upon that theory. According to official calculations it fully covers the average rise in family living expenses, and the probabilities are for a decline rather than a further rise in these expenses in the future.

We have heretofore pointed out the fallacy of the argument that everybody should have his income increased in time of scarcity

in order to enable him to buy as much of everything as he was accustomed to buy when no scarcity existed. The thing cannot be done, because the increase of income does not increase the supply of goods. There is no hope of relief from the shortage of goods or from high prices or the chatter about profiteering until the people understand that the only remedy is in producing goods enough to go around.

Transportation and Essential Industry.

However, the railway industry is an essential industry and it is necessary that the roads shall have skilled employees and be operated to their capacity. Much of the trouble with transportation in the last year has been due to the loss of experienced employees who left the service for better paying jobs elsewhere. Many of these other jobs will turn out to be temporary, but the transportation service should be able to command good men. The country has reached a situation where it is necessary to consider that some kinds of work and of business are more important to the public welfare than others, and that if we cannot have everything we want, certain priorities must be established.

It is time the public understood that transportation must be treated as a vital industry. It must be made a profitable industry to all engaged in it, not out of special consideration for them, but as a fundamental condition for the health and growth of all business. This statement applies as well to the capital invested as to the labor employed. There is no way of assuring an adequate supply of either labor or capital in the railroad business except by making the pay fairly compensatory as compared with that in other occupations. Labor has been taken care of by increasing the wage charge on the companies, and the next thing is to take care of the investments by providing for charges upon traffic that will meet the new expense and comply with the provisions of the Esch-Cummins Act.

It is idle to say that business cannot stand freight charges high enough to pay the cost of operating the railroads, including the return now contemplated by law upon the capital investment. Calculations as to the amount that will be added to the cost of living are not in point. If living expenses are to be reduced it can be done more advantageously than by reducing the efficiency of the railroads. An increase in the latter at the present time would reduce living expenses materially. The railroads are far more important to the country than a great many individual enterprises that are going on. Very likely a good many adjustments will have to be made on account of the higher freight charges, but they will be of little importance to the country compared

with the value of good railroad service. There always are some people in every line of business who cannot stand any further burden; they are marginal producers, and increased freight charges will put some of them out, but even so the business community must adjust itself to maintaining the railroads in efficient operation. That necessity should be faced squarely, and without considering any other way of meeting the cost of railway service than by charges on the traffic.

Losses of Investors.

Even the return contemplated by the Esch-Cummins Act will not do for investors in railroad securities what the wage award will do for the employees. The wage award undertakes to make the employees whole against all the rise of prices which has taken place as a result of the wastes of war, disorganization of industry, lowering of production and inflation of the currency incidental to war. There is no probability that the railroads will be valued by the Interstate Commerce Commission upon a basis which will give the security holders a return related to the rise of prices. Indeed, that would be impracticable in the case of the bond-holders. The investors will get their interest and dividends on a pre-war basis and suffer the loss of purchasing power in their incomes. It need not be thought, however, that the loss is all theirs, since, after paying taxes and higher living expenses, they will have much less left from their incomes for investment. There will be less capital for the expansion of industry, enterprise will be held in check, improvements will be retarded, interest rates will be higher, the demand for labor will be less, and the entire community will pay for the loss of capital. After the government and all its commissions have had their say, the economic law will make the final adjustments.

Railroad Valuations.

In considering the rate case now pending the Interstate Commerce Commission has obtained a summary of the work of its Valuation Commission, so far as it is practical to include the results arrived at. This summary prepared by the Commission's own engineers indicates that for fifty railroad systems with an aggregate mileage of 51,853 miles the cost of reproduction new, based on 1914 figures, would be \$3,203,782,543, while the book value of these according to the property accounts of the companies, aggregates \$3,158,275,156. Reproduction costs exceed book value by 1 per cent., and outstanding securities are something less than the book values.

The report makes another statement which is of interest in this connection. The casual reader might be inclined to say that this show-

ing was largely due to the rise of land values, but the report states that of the total reproduction costs as calculated 91 per cent. represented construction and only 10 per cent. land.

For the ten largest roads in the list of fifty covered by the report the comparison between the railroad property accounts and the engineer's reports was as follows:

	Railroad Property Investment Account	Gov't's Report of Cost of Reproduction Incl. Cost of Land.
Great Northern	\$ 384,273,853	\$418,204,335
Chicago, Rock Island & Pacific	341,401,305	388,601,208
New York, New Haven & Hartford	195,505,844	319,599,023
Boston & Maine	195,903,526	276,528,128
Cleveland, Cinc., Chic. & St. Louis	144,375,812	159,269,845
Oregon-Washington R. R. & Nav.	156,642,559	143,347,128
Minn., St. Paul & Sault Ste. Marie	116,953,635	114,701,111
Oregon Short Line	113,094,103	109,685,219
Chicago & Eastern Illinois....	78,990,280	77,751,855
Central of Georgia.....	62,003,324	73,609,448

This indicates that the sensational representations as to the amount of water in railroad stocks will be finally disposed of by the official inquiry.

Statement by Mr. Clark.

Mr. Edward E. Clark, Chairman of the Interstate Commerce Commission, before his appointment upon the Commission by President Roosevelt, was head of the Brotherhood of Railroad Conductors. He has made an effective member, and at his appearance before the Congressional Committees when the new railroad law was pending, expressed opinions favorable to the policy of establishing a fixed return upon the capital investment. In a recent address he is quoted as saying:

"The public must be willing to pay for the class of transportation that the public demands, and if the public is not willing to pay for the kind of transportation that it wants, it will have to be content with the kind it is willing to pay for.

"I do not believe that government ownership and operation of railroads in this country is the most desirable thing.

"To my mind the most striking thing about the new legislation is the very extreme and radical change in the governmental or public policy with regard to the regulation of railroads. Perhaps the most complete change is that with regard to pooling and the consolidation of competing lines and to such amalgamation of the different carriers into larger systems as will tend to increase the effectiveness and the efficiency of our transportation system and render a greater and better public service.

"To my mind the Commission cannot be effective except in pursuit of a sound policy, and so we have been endeavoring, as best we could, to study some of the most important matters from the standpoint of policy.

"The purpose of the Congress, has been, as I have said, to build up a system of transportation that is adequate and efficient. It has declared the purpose to make the users of that transportation system pay what is reasonable for the services they get, and to afford to those who are owners of those properties a fair return upon the value of the property they devote to the public use.

"We (the I. C. C.), realize the magnitude and the importance of this question; we realize that the admonition that all of these relations shall be just and reasonable means that they shall be reasonable for the one and reasonable for the other, just to the one and just to the other."

The Railroad Congestion.

The railroad situation is the focus of criticism just now, but with more difficult conditions the railroad companies have been moving more tonnage this year than last. The companies received back their properties on March 1st, there is reason to believe in a deteriorated condition. Probably the percentage of cars in bad order never was so high, or the shortage of cars so great, and it cannot be claimed that they have had much time in which to add to the equipment or enlarge the facilities. The discontent of the employees which had been brewing under government control, not only broke out in strikes but impaired the general efficiency of the operating force. Certain difficulties undoubtedly were incidental to the resumption of independent operations, but the results afford little warrant for the hasty criticism which declares that private management has broken down. It is not a failure under the circumstances to have handled more traffic than ever was handled before. The railroads cannot meet the growing needs of the country without the constant expenditure of great sums of capital upon them, and such expenditures have not been made in recent years.

The coal situation is bad, but it is made much worse by the fact that the coal strike of last fall exhausted the reserves of coal ordinarily maintained by large consumers, thus making the even distribution of current production a matter of greater importance than usual. The reserves have not been made good, so that many consumers feel that they are at the point of exhaustion and are not only clamorous for coal but bidding against each other for it and forcing up the price. This affords the basis for charges of profiteering, but the rise of prices when competitors are determined to increase their shares of a limited supply is a perfectly familiar phenomenon, and nobody has ever discovered a way to prevent it except by having the public authority take over the supply and apportion it. The consumers put up the prices on themselves.

The following figures show the total shipments of bituminous coal from the mines in each year of the last ten and for the first six months of 1920:

	Tons.		Tons.
1910.....	417,000,000	1916.....	503,000,000
1911.....	406,000,000	1917.....	552,000,000
1912.....	450,000,000	1918.....	579,000,000
1913.....	478,000,000	1919.....	458,000,000
1914.....	423,000,000	First six	
1915.....	443,000,000	months, 1920..	255,000,000

Moreover, the record shows that in none of these years did the shipments of the first six months equal those of the second six months and that in the first six months of 1920 they exceeded those of the first six months of 1919 by 43,000,000 tons.

Mr. Clark, the Interstate Commerce Commission's chairman, says in a letter dated June 23, 1920:

"The heavy traffic on our railroads means the consumption by them of unusual quantities of coal. The reserves being so badly depleted, public utilities and manufacturing plants have been and are living almost from hand to mouth for fuel.

"Strikes of employees, more particularly yardmen, have occurred and are occurring from time to time in various sections of the country. They necessarily impede the movement and distribution of cars and slow up the whole operation.

"The existing facilities are not sufficient to properly meet the present demand for transportation, but if we could have 100 per cent of earnest and efficient co-operation and work on the part of all the railroad officials and employees and of the shipping public the available facilities could be made to suffice in a way that would avoid substantial loss or suffering to any.

"A cordial spirit of helpfulness and co-operation has been manifest on the part of the great majority of the railroads and of the shipping public, but there are always those who are unwilling to fall in line or unwilling to contribute their part to any movement in the common interest. Habits are acquired, sentiments crystallized and policies adopted among some people and in some quarters as the result of war conditions which are not in harmony with the principles of our government or in line with the common welfare. It is to be hoped that they will gradually and completely disappear.

"The necessity for more facilities and equipment cannot be met at the moment. Acquisition of new facilities involves various and sometimes intricate and difficult problems of financing and, of course, they must be constructed."

This expresses the views of a public official who is struggling with the responsibilities of his task. It is an appeal for patience and cooperation, and in marked contrast to the explosive utterances prevalent over the country.

Foreign Trade and Exchange.

The trade balance in favor of the United States in June was only \$78,000,000, the smallest for any month since before the war. Imports at \$553,000,000 were the highest ever recorded.

Exports and imports by months during the last fiscal year have been as follows:

	Exports.	Imports.
July	\$568,687,515	\$343,746,070
August	646,054,425	307,293,078
September	595,214,266	435,448,747
October	631,618,449	401,845,150
November	740,013,585	424,810,272
December	681,415,999	380,710,323
January	722,063,790	473,823,869
February	645,145,225	467,402,320
March	819,556,037	523,923,236
April	684,538,438	495,738,571
May	745,868,402	431,004,944
June	631,000,000	553,000,000

Total \$8,111,176,131 \$5,238,746,580

The above figures do not include gold or silver. Exports of gold during the year were \$467,000,000; imports, \$151,000,000; exports of silver, \$179,000,000; imports, \$102,800,000.

Exports and imports in each of the last eight years have been as follows:

	Exports.	Imports.
1920	\$8,111,176,131	\$5,238,746,580
1919	7,232,282,686	3,095,720,068
1918	5,919,711,371	2,945,655,403
1917	6,290,048,394	2,659,355,185
1916	4,333,482,885	2,197,883,510
1915	2,768,643,000	1,674,220,000
1914	2,364,626,000	1,894,160,000
1913	2,465,884,000	1,813,008,000

The foreign exchange table, showing present rates and changes of the last month follows:

	Unit Value	Rate in cents June 25	Rate in cents July 26	Change from par	Depreciation
Canada	1.00	.8800	.88	.12	12.00
Germany	2.382	.0270	.0245	.2137	89.71
Italy . . . . .	.1930	.0616	.0555	.1375	71.24
Belgium . . . . .	.1930	.0870	.0824	.1106	57.31
France . . . . .	.1930	.0829	.0775	.1155	59.84
England	4.8665	3.9675	3.7950	1.0715	22.02
Switzerland . . . . .	.1930	.1825	.1718	.0212	10.98
Holland . . . . .	.4020	.3562	.3450	.0570	14.18
Denmark . . . . .	.2680	.1645	.1620	.1060	39.55
Norway . . . . .	.2680	.1678	.1625	.1055	39.37
Sweden . . . . .	.2680	.2210	.2155	.0525	19.59
Spain . . . . .	.1930	.1670	.1567	.0363	18.81
Argentina . . . . .	.9648	.9537	.8875	.0773	8.01
Japan . . . . .	.4985	.5150	.5150	.0165	*3.31

*Premium.

It will be seen that the European exchanges, after showing greater strength for several months, have declined heavily, the drop having occurred for the most part in the last half of July. Various explanations are given, among them the Polish-Russian crisis and the approaching maturity of the Anglo-French loan, but the most direct influence has been the increased offerings of sterling bills. In the last two weeks both wheat and cotton bills have made their appearance in round amounts, and the market has not been in shape to take them without recessions. The Continental exchanges have been affected by the London rate.

Although the balance of trade has been against Japan for the last half year, large balances were previously accumulated here, and the Japanese banks have been drawing on these during the past month to the extent of about \$11,500,000 in gold. The movement probably is due to the disturbed state of business in Japan. The exports and imports of that country have both fallen off, but it would not be strange under existing circumstances if the latter should fall off more than the former.

India continued, during last month, to take but little gold from London, and a moderate share of the arrivals from South Africa have been detained for New York. A resumption of silver purchases in London for the India market is reported and the future market for silver in India is again quoted, after having been suspended throughout the war. The price of silver in London has recovered several pence and foreign silver is worth about 94 to 95 cents in New York, with the United

States government buying domestic silver under the Pittman Act at \$1 per ounce.

The question of how the French government is proposing to pay its half of the Anglo-French loan of \$500,000,000 which matures October 15, is still unanswered, but it has been announced that a representative of the French treasury will soon visit this country, presumably to discuss this subject.

South American Exchanges.

The exchange situation between New York and Buenos Aires has continued in favor of the former, with the new development that the Argentine government after granting orders against its balance in New York to the aggregate amount of about \$43,000,000, shut down on further drafts of this kind, thus virtually suspending gold payments and throwing the market on its own resources. The effect has been to put drafts on New York at a premium of approximately 10 per cent. in Buenos Aires, which will make American goods cost more in that market, and to that extent discourage our trade in that country.

This is a reversal of the situation last March, when the balance of payments was in favor of Argentina and gold was going out from here at such a rate that some timid people were for having the United States government do what the Argentine government has now done. Perhaps they will find support for their arguments in this action of the Argentine government, but time has shown that such interference was unnecessary then and will probably show it to have been unnecessary now. We will not presume to criticize the policy of the Argentine government, but the percentage of gold reserve to paper currency is very high in that country, and the present situation probably is temporary. When the season for exporting wool comes around the trade balance is most likely to again turn over in favor of Argentina.

Exchange with Uruguay follows closely that with Argentina, and the fall in exchange with Rio Janerio has been even heavier than with Argentina and Uruguay. It is unfortunate that these violent fluctuations in exchange should occur between countries whose trade-relations are as mutually advantageous as those of the United States and these countries.

The long-pending joint application of the governments of Great Britain, France and Italy for a loan of 200,000,000 gold pesos from the Argentine government seems to have been finally abandoned. The European governments have given notice that they no longer desire the credit. It was wanted to finance the purchase of Argentine products, but that seems to have been accomplished by other means, as Argentine exports since January 1, last, have been heavy beyond precedent. A recent report from Mr. Robertson, United States Con-

sul-General at Buenos Aires, says that Argentine exported 2,555,223 tons of wheat during the first four months of this year, as against 364,873 tons, 801,103 tons, 628,829 tons, 950,758 tons and 1,638,232 tons during the corresponding periods, respectively, of the years 1919, 1918, 1917, 1916 and 1915. In addition to the amount actually exported the sales for export were so heavy that the amount available for home consumption has been found to be too small and the Argentine government has negotiated for the repurchase on public account of a large amount which had become the property of the French government.

A Brotherhood Bank.

A Washington dispatch says that a charter has been taken out for "The Brotherhood of Locomotive Engineers' Co-operative National Bank of Cleveland, Ohio," which is to be established with a capital of \$1,000,000. No authoritative statement about the institution has been given out, but parties who have assumed to speak for it have said that the railroad brotherhoods and other labor organizations were resolved to have their own banks and keep their money where it "would no longer be used against them," and that the proposed institution would "lend money to workers and farmers, and not to speculators and manipulators."

If that is the way the brotherhoods feel about it they are taking the right course in organizing a bank of their own, and everybody will be glad to see them do it. If they think their deposits in other banks have been somehow used against them, or if they and others think the existing banks favor speculators and manipulators rather than workers and farmers, probably no amount of argument will convince them to the contrary. It is unfortunate that any number of people should hold such opinions, which sound absurd to bankers, but since they are held, it is desirable to show that they are unfounded and that the public is honestly and effectively served by its banking institutions. The most practical way to dispose of complaints on this score will be to have the critics themselves get into the banking business.

Banking An Open Field.

The first demonstration they make is that the banking field is open to everybody; the business is not a monopoly. Any group of reputable people who will pay in the required amount of capital, can start a bank. New banks are being started all of the time. In some respects it is a business more easy to get into and out of than almost any other, because it requires no heavy investment in a fixed plant, subject to deterioration. It is a highly competitive business, dependent upon public favor.

The banker is not in a position to exercise arbitrary power. He does not lend his own money. In order to make his business a success he must induce the public to leave its funds in his custody, and this is done upon two general conditions. He must be always ready to pay cash on demand, and the depositors have a claim to accommodation as borrowers. In general commercial banking the depositors are the chief borrowers. Nobody could get very far in the banking business without recognizing their claims, for the business is fundamentally co-operative. The banker may lend or not in a given case, but the growth of his business depends upon his giving satisfactory treatment to his patrons and upon their prosperity. A banker who neglected the wants of his own customers and his own community in order to use the funds elsewhere, would soon find himself without deposits. That would seem to be obvious, but evidently it is not to a great many people.

Is All Speculation Pernicious?

The new people in the business who intend to give no support to speculation will find that questions will arise among themselves as to what is speculation and what is legitimate business. There are not many business operations which have not some element of speculation in them. The farmer who plants a crop is making an investment in the expectation of a larger but more or less uncertain return in the future, and the man who buys the farmer's crop when it is harvested and carries it and distributes it throughout the year to the consumers, is acting from a similar motive and rendering a necessary service.

The party who buys commodities when he thinks they are lower than conditions warrant, with the expectation of selling later at an advance, is a speculator, but such dealings broaden the market and tend to stabilize it.

Is it legitimate to store eggs in June for consumption in January? Who knows what it is safe to pay for eggs, or lend upon eggs, in June to be stored for the winter market? Who knows how freely hens will be laying next fall and winter? And if as the season develops and conditions change, the original purchaser of June eggs concludes to sell to a secondary purchaser who will carry them the remainder of the season, is either a pernicious speculator? Would the interest of the public be served by requiring the producer to carry the eggs from June to January, or by forbidding the first dealer to sell them to another dealer? Can the second dealer get a higher price for the eggs in January than the first dealer could have obtained if he had carried them the full time, and is there gain or loss to the public in having a free market for eggs? Just where does pernicious speculation

begin, and to what extent is it advisable that the banker should attempt to regulate it or hold the scales between producer and consumer?

Questions of Banking Policy.

Just now there is an appeal for bankers to lend money to wool-growers to enable the latter to carry their wool until prices recover from the recent slump; and on the other hand a general demand that bankers shall not support the withholding of products from market.

Is it legitimate to lend money on stocks and bonds? They represent tangible property, i. e., lands, buildings, machinery, goods. Is it legitimate to lend on the pledge of such property, or would it be in the public interest to deny to its owners the right of using their credit?

Of course these questions come up to bankers in many phases, and discrimination must be exercised according to the circumstances of each case and the conditions of the time. At the present time the pressure for credit is so great that there is necessity for discrimination in favor of the most essential uses, as there is in apportioning railroad cars, but in ordinary times it is safe to say that the public would no more want arbitrary regulation of business by the bankers than by the railroad companies.

If the Brotherhood Bank helps to assure people who are doubtful on the subject, that there is free entrance, actual competition, and fair play in the banking field, it will serve an excellent purpose, and we are confident that it will have an influence to this end. The more everybody knows about the services of the entire business organization, the better, and the more widely the ownership of banking corporations and all other corporations can be distributed, the better.

Cooperative Industrial Associations.

The newspapers last month chronicled the presence in the port of New York of the Italian steamship "Crema," which is one of a fleet of five freight vessels owned, it is said, by officers and men of the Italian mercantile marine. In other words, it is a cooperative shipping company, recently organized under the auspices of the Italian government, which sold the ships upon favorable terms. There are about 31,000 members of the association, each of whom pays a percentage of his wages monthly into the treasury to complete the purchase of the fleet. The earnings, which at present are very good, are applied to the same purpose.

The members of the organization elect the Board of Directors, which must include representatives of both officers and crew.

The Chief Officer of the "Crema," when interviewed, said that discipline on the ships owned by the association was stricter than in the ordinary merchant vessels because if a member did not do his duty in a proper, seaman-like manner he would be ejected and blacklisted by the union.

Amid all the strife and recrimination of this time, here is an encouraging bit of news. Everybody will wish success to the Italian cooperative shipping association. Why shouldn't it be successful? If it is, the way to real Democracy in Industry will be seen to be wide open and right at hand. Moreover, if it is not successful, what is to be thought of the plan for labor representation in management without any share of ownership?

Why Not a Railroad Employees' Association.

The 31,000 members of the Italian Cooperative Association are not all employed by that association, which only owns five ships. The association expects to buy more ships, but may also take in more members. The main feature is that the ships will be operated and controlled by men who make their living on the sea and whose incomes are mainly from their labor. The class division between owners and employees is done away with.

The cooperative shipping association might serve as a model for an association of railroad employees. The railroad wage bill after the new wage scale goes into effect will be about \$3,600,000,000 per year, and if the employees would set aside five per cent. to finance the undertaking they could begin to accumulate an interest in the railroads at the rate of \$180,000,000 per year. If this was applied to the purchase of stock rather than bonds they would come quite rapidly into an influential position in the control of the roads, particularly if they concentrated their purchases upon certain systems. The New York Central system has \$222,729,300 of stock outstanding, now selling in the market at about \$70 per share, or at a valuation of \$155,950,510 for the entire stock. A majority would give control and even a respectable minority interest would give representation.

This is enough to show that there is no insuperable obstacle to having the railroad employees become an important factor in railroad ownership and management, and so far from there being objection to it by other shareholders or the public, we are confident that it would be welcomed. The United States Steel Corporation encourages its employees to become stockholders, and several railroad companies have made special efforts to the same end.

Cooperation Proposed for Garment-workers.

It is announced that plans are about to be offered to the garment-workers' unions of America for the establishment of union-owned factories and stores. The first group of factories, it is said, will be established in New York together with a number of union stores, and others will be located in Chicago and Philadelphia. Ample funds will be provided from the treasury of the international union.

There will be skepticism about the outcome of this undertaking among those who doubt that large numbers of people without practical experience

can operate a business of this kind successfully, but we regard the movement as a hopeful symptom of the times. It is a constructive plan for dealing with the industrial situation. In so far as it is based upon the opinion that the present employers are making exorbitant profits and rendering little or no service in the industry, there will be something to learn, but it is highly desirable that the facts shall be known and there is no better way to develop them. There is no obstacle to the success of the undertaking except such as the workers may raise among themselves by failure to properly support it and to select the right persons to manage it. If the members will take as much interest in making a success of the business as they have in making a success of their strikes they will accomplish a most desirable revolution in the industry.

It is evident that the general state of ill-feeling and antagonism in industry is reducing output, increasing costs and inflicting hardships upon the great body of the population. All sorts of remedial schemes are proposed which result in nothing but more controversy, but this proposal to have the workers themselves become proprietors is beyond controversy. It offers a kind of socialism which nobody can find fault with and yet ought to satisfy the socialists as well as the trade-unionists. It promises harmony, contentment, efficiency in industry, industrial democracy, better social conditions and good citizenship, all together.

Of course so much that is good is not to be expected all at once under any system which depends upon human co-operation. Some allowance for human frailties and disagreements must be made and plans of this kind are not altogether new. Nevertheless, is not the principle sound, and does it not point the natural line of development? If the management is good and the workers support it success will result; without these conditions it will fail. The achievement of these conditions is a matter of social education and development, worth working for in itself. It is the fundamental condition of success for industrial democracy, for a democracy which mismanages industry is not going to benefit anybody. The resolution to save, to own something, to have a proprietary interest, and to make the business a success in its relations to the public, must develop along with the ambition to manage the business. If the labor organizations can help in developing this resolution and an appreciation of the part which labor can play by thrift and co-operative effort they will be of great service.

In short, if the wage-earners are ready to co-operate, and manage industry for themselves, supplying the required capital and skill, there is no obstacle to prevent them outside of themselves, and it is the thing for them to do. On the other hand if they are not prepared to do this, if they decline to assume any risks or responsibilities, and admit that they need the services of capitalists and managers, then they should assume a

more cooperative attitude toward the latter, and join in good faith in a general effort to make the wage system productive of the largest possible results.

International Chamber of Commerce.

The International Conference of delegates from Chambers of Commerce held in Paris last month seems to have been a meeting well worth while. The first conference so constituted was held in this country at Atlantic City last September, in which 500 delegates from Belgium, Great Britain, France, Italy and the United States participated. The meeting which has just been held in Paris was planned at that time, and it is now proposed to establish a permanent organization, which shall hold an annual convention and to which delegates representing the commercial organizations of other countries shall be admitted.

The purpose is to create a body, less formal and restricted in its deliberations than one constituted by government officials must be, to consider international questions from the standpoint of mutual interests, and endeavor to promote a spirit of good-will and co-operation.

Such bodies of course can be influential only as their declarations appeal to the judgment of the peoples from whom they come, but, representing the leading commercial organizations of the world, it is conceivable that the conferences may develop into large importance. They cannot, of course, negotiate, legislate or agree to anything for their countries in a binding sense, but for that very reason there may be greater freedom of suggestion and discussion than in an official body. The constructive work of the world is not done by governments and they are poorly qualified to do it, either in international or domestic affairs. Indeed, the great danger to orderly and natural social progress is that governments will attempt to do too much; and the best way of preventing or heading off such attempts is by such voluntary action on the part of the leading social forces as will make governmental action unnecessary or only naturally supplemental.

The most important questions of the day are best treated in a tentative, experimental manner, with all parties free, but voluntarily seeking the relations which will best serve the common interests.

Recovery of France.

We have been pleased to refer from time to time in recent months to the many signs of industrial recovery in France. The French people have labored under enormous difficulties in their efforts to get their industries back into normal operation, notably from the shortage of coal—for what can be done in industry without steam

power? They have been also under a very distressing handicap in the necessity to import so much of food and raw materials under adverse exchange conditions which made the cost more than double the actual prices in foreign markets. The investments of France in Russia and South-eastern Europe would supply in normal times foreign credits enough to pay for such importations, but they yield nothing now. Notwithstanding these obstacles, the people of France have accomplished results which serve to both hearten themselves and give confidence in their future to others. There never was reason to doubt that the people of France would regain their productive powers and meet their obligations to the last franc, and they are now furnishing proof of it which is convincing even to the most skeptical.

In a recent interview held by a representative of this Bank with the head of one of the great French banks, the latter was asked to dictate a memorandum covering some of the principal facts of the situation, which he did, and his succinct and interesting statement is repeated herewith, as follows:

A Few Data About the French Situation.

In 1913, the total amount of revenue collected by the French budget was 5,100 million francs (1,020 million dollars). At the end of the war the total revenue had reached 9,000 million francs (1,800 million dollars).

But the richest part of France was invaded, a part which in 1913 yielded 800 million francs (160 million dollars).

Consequently, as the 9,000 million francs (1,800 million dollars) were paid by the remainder of the territory, which paid 4,300 million francs (860 million dollars) in 1913, the increase is more than 100%.

This achievement is generally compared in a disparaging spirit with those of other countries during the war.

But it must be remembered:

1. That the invaded territory represented:

- 14% of the French production in wheat.
- 47% of the French production in sugar.
- 55% of the French production in flax.
- 74% of the French production in coal.
- 92% of the French production in iron ore.
- 81% of the French production in iron.
- 60% in the French production in steel.
- 20% of the French production in tools, machinery, etc.
- 80% of the French production in wool products.
- 70% of the French production in cotton products.
- 20% of the French Export Trade.

2. That when these districts were restored to France destruction had been wrought, purposely, even to the last moment, in order to cripple French industry and trade for long years to come, amounting to tens of billion of dollars (the exact amount cannot even now be ascertained).

The principal coal mines had been flooded, all equipments destroyed. It will take ten years to put them in shape again. And 8,700,000 acres of land were rendered useless for agriculture; 1,400 miles of standard gauge railroad track, 814 bridges, and 680 miles of waterways had been destroyed.

3. That the French losses in men killed have been 1,350,000, representing 3½% of the total population.

Practically all men between 18 and 47 have been mobilized, i. e., about 25% of the total population.

Out of every 100 mobilized—men of the ages of 19 to 34—57 have been killed.

4. That in spite of the terrible handicap under which the country labored, with huge foreign armies concentrated, equipped, drilled, clothed, fed and armed on French territory—as every American knows—on the day of the Armistice, the whole American army in France did not possess a single field gun which had not been constructed in and supplied by France.

Imagine the United States in the same situation: having lost the coal fields in the Alleghanys, the iron ore of the lakes, some of the largest and richest cities such as Chicago, Cleveland and Pittsburg, having had 3,500,000 men killed, and while struggling for their life on their own soil, helping others to get ready, and devoting all their productive capacity to war material, while others had something over for domestic requirements and investments such as shipbuilding, etc., how would American economic conditions look, under these circumstances, after five years?

The present situation is, of course, a transitory one, but already interesting symptoms can be noted:

(a) An improvement in the trade returns:

French imports during the first 5 months of 1919 amounted to Fr. 11,114 million (2,222 million dollars) and during the first five months of 1920, to Fr. 13,041 millions (2,608 million dollars).

The exports, during these same periods, were: 1919 Fr. 2,116 million (423 million dollars). 1920 Fr. 5,976 million (1,194 million dollars).

The balance is certainly a very unfavorable one, but it is being slowly and steadily reduced:

In 1919, Fr. 8,998 millions (1,799 million dollars). In 1920 Fr. 7,071 millions (1,414 million dollars).

The increase in imports is due mainly to raw material for industrial purposes (Fr. 1,724 million or 344 million dollars) while the increase in exports is mainly due to manufactured articles (Fr. 2,244 millions or 448 million dollars).

(b) The yield of taxes and other state income shows a remarkable increase. For the first five months of 1920, the returns have exceeded the estimates by Fr. 1,356 millions (271 million dollars); the increase on the figures of 1919 (with no appreciable changes in the rates) amounts to Fr. 1,646 millions (329 million dollars).

The new taxes voted on June 25, 1920, are estimated to yield about Fr. 8,500 millions a year (1,700 million dollars). This means that the French taxpayers' burden will henceforth be about 486 francs a year (\$97.20), exclusive of department and local taxes. We understand that the average yearly payment by the American taxpayer into the Federal treasury is about \$49.70.

No other nation in history has undertaken such a drastic reform in taxation at one and the same time.

Since the foregoing was prepared the statement of the foreign trade of France for the full half year ended June 30, 1920, has been made. Imports amounted to 15,629,000,000 francs, an increase of 836,000,000 francs over the same period of 1919, while the exports were 7,780,000,000 francs, an increase of 5,096,000,000 francs.

It will be seen that France still has great need for credit to enable her to obtain the raw materials for her industries, but with these provided her exports will rapidly come into balance with imports. It is in the general interest that the normal balance shall be restored.

The New Thrift.

"Nothing can take the place of intelligent attention." Any man can repeat after Ben Franklin, "Save, save; take care of the pence and the pounds will take care of themselves."

They won't; they will make themselves wings, if they are not kept busy making money. It's easy to lose money and just as easy to make it; thinking prevents one and does the other. We have been taught that to make money is the gift of the few; it is the natural inheritance of the man or the woman who will think.

When one is really making money, and not merely grabbing what somebody else makes, he is too busy to waste it. What proportion of their incomes do Henry Ford or Edison waste?

To learn how to make money and to keep it working, really to produce, is the message of Bolton Hall's "Thrift." In a fascinating chapter he has made interest interesting. The book was adopted by all branches of the United States Government War Savings and Thrift Bureaus, as well as by the Savings Bank Section of the American Bankers' Association. Nobody will agree with all in that book. Mr. Hall says, "If everybody agreed with me, I might as well write the multiplication table."

But advertisers use it and there is hardly a newspaper now that does not reprint some of its wise and witty sayings, generally without credit; the author says he does not care, because a great teacher once said to him, "I never feel that my pupils really know what I teach them till they tell it to me as a brand-new discovery of their own."

Well, get the book. The American Bankers' Association, 5 Nassau Street, New York, will send it to you for a dollar and if you don't think it is worth it, the author will refund your dollar. Or, get it from the public libraries, nearly all of them have it. At least it will show you the difference between "stingeing" money and making money. The great thought that needs to be put over with the American people now is the service in saving for social advancement.

The Bond Market.

The improvement in the demand for investment securities, noticed in the closing days of June, continued throughout the month of July. A large number of new issues were offered, which included several important industrial and foreign government issues. While the latter were large, ranging in amounts from \$20,000,000 to \$60,000,000, they were absorbed within a day or two of the announcements of the offerings, and during the month have advanced from one to three points over the original offering prices. This general improvement in the demand for investment securities was further reflected in an advance in the prices of bonds recently publicly offered, particularly the railroad note and equip-

ment issues, most of which are now quoted substantially higher than the original offering prices. It is reported that the present activity was particularly directed to securities bearing a high coupon rate, although there was also considerable improvement in the demand for some of the old high-grade issues.

The feeling among investment houses generally seems to be optimistic regarding a continuance of the improvement in the investment market.

Government and Municipal Bonds.

True to predictions, the Liberty Bond market began to show an improvement the latter part of June and this condition continued at slightly increasing prices until the latter part of July. In addition to the $2\frac{1}{2}\%$ cumulative sinking fund which became operative on July 1 there was evidence of good investment buying by individuals and savings banks.

During the latter part of the month there were indications of liquidation, particularly in the Fourth $4\frac{1}{4}\%$ s, which was attributed to the fact that a good many holders of these bonds have grown weary of paying the high money rates necessary to carry their securities in loan accounts and accordingly disposed of them rather than renew their loans beyond the last ninety-day loaning period, which expired on July 19. In consequence, the demand seemed to be somewhat satisfied, and with the exception of the Victory $4\frac{3}{4}\%$ s there was a slight sagging of prices.

There was considerable improvement in the demand for old United States Government 2s and 4s, which are eligible for deposit to secure circulation by reason of the desire of some national banks to obtain new currency to move early crops. During the month the Treasury Department announced two new series of Certificates of Indebtedness aggregating \$200,000,000, bearing interest at the rate of $5\frac{3}{4}\%$, dated July 15 and maturing in series on January 15, 1921 and March 15, 1921. The latter are acceptable in payment of taxes.

From the foregoing it will be seen that the rate of interest has been reduced $\frac{1}{4}$ of 1%, the last certificates having been issued at the rate of 6% per annum.

There was a further development in the demand for municipals, particularly for long-term bonds of the larger municipalities. Almost without exception the recent new issues have sold readily at higher levels. The larger issues offered during the last month include:

\$1,170,000	Columbus, Ohio, School Dist. 18½-yr. Average 6s on a $5\frac{1}{4}\%$ basis.
500,000	State of Delaware 40-yr. $4\frac{1}{2}\%$ s, to yield 5.20%.
795,000	Hudson County, N. J., 5-yr. 6s, to yield 5.65%.
900,000	City of Cleveland, Ohio, 50-yr. $5\frac{1}{2}\%$ s, to yield 5.30%.

953,000	City of Cleveland, Ohio, $5\frac{1}{4}\%$ Bonds, maturing serially—1940-49 maturities to yield 5.35%; 1950-70 maturities to yield 5.30%.
4,000,000	City of Philadelphia, Pa., 20-yr. 5s, at $101\frac{1}{4}$, to yield 4.90%.
1,500,000	State of Oregon 15-yr. Aver. $4\frac{1}{2}\%$ s, at prices to yield from 5.30% to 5.60%.
12,000,000	State of Pennsylvania 3-yr. $4\frac{1}{2}\%$ s, which were sold to banking institutions at par but apparently have not as yet been re-offered to the public.
975,000	Berks County, Pa., 5% tax-free bonds, at par.

The significant feature in regard to the above-mentioned Cleveland bonds is the fact that they are reported as being a part of a lot of \$3,670,000 $5\frac{1}{2}\%$ s which failed to attract a single bid at public offering on June 14.

Canadian municipals were fairly active, and during the month the Province of British Columbia sold \$1,500,000 5-year 6s to dealers in this country for re-offering at a price to yield about $7\frac{3}{4}\%$.

Foreign Government Issues.

During the first part of the month a much better demand developed for foreign government securities, and still further activity was stimulated by the overwhelming success of the \$25,000,000 Swiss Government 20-year 8% bonds which were offered on July 13 at par. The second day after the announcement of the issue sales were reported at over the original offering price, and later the bonds sold as high as $103\frac{1}{4}$.

Belgian $7\frac{1}{2}\%$ s sold up to 101, as compared with the original offering price of $97\frac{1}{4}$.

It is believed that the wide distribution of the Swiss bonds and the recent general improvement reflected in other foreign issues will create a much more favorable attitude toward bonds of this class than has existed recently.

Railroad, Corporate and Public Utility Issues.

Railroad financing was conspicuous by its absence, which was accounted for by the fact that it was understood that most of the larger and pressing railroad requirements were taken care of before the first of July, in order to avoid the delay and inconvenience of submitting the new railroad issues to the Interstate Commerce Commission for their approval, which became necessary when the new law went into effect on June 27. The uncertainty of the decision of the Railroad Labor Board on the wage increase and the decision of the Interstate Commerce Commission on the increase in freight rates may also have had some bearing on the lack of railroad financing during June. Practically the only important offering during the month was the \$1,500,000 St. Paul Union Depot $3\frac{1}{2}$ -year 7% notes at $98\frac{1}{2}$, to yield $7\frac{1}{2}\%$. It was reported that this issue was quickly absorbed, and the demand for railroad securities extended to other recent

issues bearing high coupon rates. Louisville & Nashville 7% notes sold up to 101½ and Pennsylvania Railroad 10-year Secured 7s sold up to 103, and practically all the recent 7% equipment issues were in demand at prices substantially over the original offering level.

The market for corporate issues probably showed the greatest amount of activity, the outstanding feature being the quick absorption of the new \$60,000,000 Armour & Company 10-year Convertible 7s at 94.84, to yield 7¾% within two days of the original offering. It is understood that small sales predominated, indicating that the issue has been widely distributed, which distribution is further evidenced by the fact that the market advanced immediately and the bonds at the close of the month are in demand around 95¾.

The Armour offering was closely followed by \$20,000,000 United States Rubber Company 10-year 7½s at 98¾, to yield 7¾%. This offering was also exceptionally well received and the issue was oversubscribed at 3 o'clock on the day of the announcement of the offering, at which time the subscription books were closed.

Some of the other larger issues during the month include:

\$3,000,000	Utah-Idaho Sugar Co. 1st Mtge. Serial 7s, to yield 7¾%.
1,600,000	Carbon Steel Co. 7½% Serial Notes, to yield 8.10%.
3,000,000	West Boylston Mfg. Co. 8% preferred stock, at par.
1,500,000	American Home Furnishers Co. 8% preferred stock, to yield 8.20%.
1,500,000	Lucey Mfg. Co. 10-yr. 8% Conv. Notes, to yield 8.30%.
1,500,000	St. Louis Coke & Chemical Co. 8% serial 1st mtge. notes, to yield 8%.
1,000,000	Edison Electric Appliance Co. 1st mtge. 3-yr. 7s, to yield 7.75%.
10,000,000	Pan-American Petroleum & Transport Co. 1st lien 10-yr. Conv. 7s at 94½, to yield 7.80%.
1,000,000	China Mail Steamship Co. 1st mtge. 8% serial gold bonds, to yield 8%.
2,000,000	S. S. White Dental Mfg. Co. 10-yr. 8% gold notes, to yield 8%.

The revival of interest in public utility securities which was noticeable in June continued throughout this month as a result, apparently, of investors coming to a realization of the many existing opportunities to obtain most liberal yields on the best grade securities of this class. A number of important issues have been placed on the market during the month, and it is reported that they have been very well received. In some cases they have been all sold within a few days of the an-

nouncement of the offering. The following list comprises some of the larger issues:

\$1,500,000	Chicago North Shore & Milwaukee R.R. 10-yr. 7s at 92, to yield 8.20%.
4,000,000	Middle Western Utilities Co. Prior Lien 7% stock at 90, to yield 7.80%.
1,000,000	United Electric Light Co. (Springfield, Mass.), 10-yr. 7s at 96.53, to yield 7½%.
3,500,000	Louisville Gas & Elec. Co. 2½-yr. 8% notes, at 99, to yield 8.45%.
8,000,000	Duquesne Light Co. 1st mtge. & coll. trust 7s, due July 1, 1949, at 85, to yield 7.25%.
1,700,000	Utica Gas & Elec. Co. 5-yr. genl. mtge. 7½s, at 98, to yield 8%.
3,000,000	West Penn Power Co. 1st mtge. 7s, due Mar. 1, 1946, at 94½, to yield 7.50%.
1,500,000	Benjamin Electric Mfg. Co. Serial 8% gold notes, at par.

The combined average of 40 active corporation issues, as reported by the Wall Street Journal on July 24, was 73.88, compared with 72.87 on June 24, and 84.49 on July 24, 1919.

Discount Rates.

Rates on paper discounted for member banks approved by the Federal Reserve Board and in effect July 26, 1920.

Federal Reserve Banks	Discounted bills maturing within 90 days (including memberbanks' 15-day collateral notes) secured by		Bankers' acceptances maturing within 3 months	Trade acceptances maturing within 90 days	Discounted bills secured otherwise than by Government war obligations, also unsecured, maturing within	
	Treasury certificates of indebtedness	Liberty bonds and Victory notes			90 days (including memberbanks' 15-day collateral notes)	91 to 180 days (agricultural and livestock paper)
Boston	5½	6	..	7	7	7
New York	5½	6	6	7	7	7
Philadelphia.....	*6	5½	5½	6	6	6
Cleveland	5½	5¾	5½	5¾	6	6
Richmond	*6	6	6	6	6	6
Atlanta	*6	5½	5½	6	6	6
Chicago	*6	6	6	7	7	7
St. Louis	†5½	5½	5½	6	6	6
Minneapolis ..	5½	6	6	6½	7	7
Kansas City....	*6	5½	5½	6	6	6
Dallas	*6	5½	5½	6	6	6
San Francisco *6	6	6	6	6	6	6

* Discount rate corresponds to interest rate borne by certificates pledged as collateral, with minimum of 5 per cent in the case of Philadelphia, Atlanta, Kansas City and Dallas, and 5½ per cent in the case of Richmond, Chicago and San Francisco.

† 5½ per cent on paper secured by 5¼ per cent certificates, and 5 per cent on paper secured by 4¾ and 5 per cent certificates.

Note.—Rates shown for Atlanta, St. Louis, Kansas City, and Dallas are normal rates, applying to discounts not in excess of basic lines fixed for each member bank by the Federal Reserve Bank. Rates on discounts in excess of the basic line are subject to a ½ per cent progressive increase for each 25 per cent by which the amount of accommodation extended exceeds the basic line.

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